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DE RUEHML #0423/01 0500645
ZNR UUUUU ZZH
O 190645Z FEB 08
FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9782
INFO RUEHBK/AMEMBASSY BANGKOK IMMEDIATE 2631
RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 6314
RUEHEG/AMEMBASSY CAIRO IMMEDIATE 0114
RUEHLM/AMEMBASSY COLOMBO IMMEDIATE 2878
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RUEHGP/AMEMBASSY SINGAPORE IMMEDIATE 7336
RUEHIN/AIT TAIPEI IMMEDIATE 1614
RUEHKO/AMEMBASSY TOKYO IMMEDIATE 3471

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E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EAID](#) [TRGY](#) [SENV](#) [RP](#)

SUBJECT: "\$100 per Barrel: Crisis or Opportunity?" The 2008 Philippine Energy Summit

¶1. Summary: Against the backdrop of rising oil prices and prompted into action by President Arroyo, the Philippine Department of Energy convened an Energy Summit to solicit stakeholder inputs into developing government priorities for the sector. Despite being organized on a short notice, the Summit succeeded in gathering over 2,500 sector stakeholders to discuss, debate, and map out immediate, short-, medium- and long-term solutions to address the impact of oil prices and other pressing sector issues, including energy security and sustainable, climate-friendly energy development. Key initiatives discussed included lowering power costs (Philippines currently has some of the highest electricity costs in the region), promoting renewable energy, promoting energy independence, efficiency and conservation, social mobilization, and finding ways to lower fuel costs at the pump. The Summit also provided broad-based and timely input to the Philippine Department of Energy's development of a 20-year Philippine Energy Plan. This cable presents Summit highlights, including key proposals from sector stakeholders and a brief analysis of those proposals in the light of the current energy situation. End Summary.

REACHING THE SUMMIT AND SUMMIT PROCESS

¶2. When world crude oil prices peaked above \$100 per barrel in early January 2008, President Arroyo called on her energy team to organize a summit to gather views on a way forward for this largely oil import-dependent nation. With just two weeks to prepare, the Philippine Department of Energy worked overtime to get ready for the three-phased approach to examining sector issues and options into consensus and actionable plans.

¶3. Phases 1 and 2: January 29-31, "listening and consultative" morning sessions consisted of experts' presentations and debates about pressing sector issues, including responses to the Summit's thematic question of whether the historical \$100 per barrel crude oil price presents a crisis or an opportunity for the nation. Afternoon sessions constituted the "collaborative action planning

phase" where multiple, concurrent workshops served as fora for stakeholder input to multi-sectoral action plans that recommended policy directions, programs, and social mobilization interventions.

14. Phase 3: A final "integration and consensus building" phase was held February 1-2 and gathered select participants from each stakeholder group for processing the outputs of Phase 1 and 2 into a set of initiatives through smaller group synthesis workshops. Given the contentious nature of many energy sector issues, initiatives were also classified by degree of stakeholder consensus as "Green" (consensus among stakeholders); "Yellow Initiative" (requires further study); and "Red" (contentious and requiring extended consultation).

15. The Summit Proper. On February 5, the final outputs of the Summit were presented by Energy Secretary Angelo Reyes, with President Arroyo's reaction and key pronouncements to address the problems. The Summit proceedings were attended by over 2,500 representatives from the energy sector, Philippine government officials, academia, the donor community, and civil society groups including those focused on consumer welfare. The high level of participation in the Summit reflects the importance of current sector issues to the nation, and lends weight to its outputs. Indeed, in his final closing remarks, Secretary Reyes drew applause when he commented, "Among the most valuable lessons we have learned from this Summit is the fact that the process turned out to be just as important as the substance of this gathering."

KEY PROPOSALS/"GREEN" INITIATIVES

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16. Secretary Reyes presented results of the previous week's work at the February 5 Summit, including a set of initiatives spanning power, renewable energy, energy efficiency and conservation, oil prices, and social mobilization. Reyes also noted that the outputs from the Energy Summit would become important inputs into the 20-year Philippine Energy Plan currently under development. The complete Summit proceedings are available at www.doe.gov.ph/esummit/.

17. Lowering Power Costs. Two proposals emerged aimed at lowering and/or rationalizing electric power costs. The first is to accelerate full implementation of open access and retail competition in the electric power industry by amending the Electric Power Industry Reform Act (EPIRA). The 2001 EPIRA ties full implementation (a key step to bringing down the country's high electricity costs) to privatization of 70% of the government-owned National Power Corporation's (NPC) generating assets. Currently, 42% of the assets are privatized. By lowering EPIRA's privatization benchmark, open access and retail competition can proceed sooner. However, some stakeholders argue that privatizing NPC assets as mandated by EPIRA is essential to ensure a level playing field and that "changing the rules in the middle of the game" would discourage future private investments.

18. The second proposal would fast-track implementation of time-of-use program, to smooth demand levels by offering low electricity prices during off-peak hours. Currently, the National Power Corporation, Meralco and a few private utilities are voluntarily offering its customers time-of-use rates. Other distribution utilities are expected to follow suit.

19. Promoting Renewable Energy. Several proposals supported current government efforts to promote development and use of renewable energy, including: (a) the passage of the Renewable Energy Bill; (b) the establishment of a one-stop-shop for processing of renewable projects; (c) accelerated implementation of the Biofuels Act and (d) renewed promotion of compressed natural gas (CNG) for buses and liquefied petroleum gas (LPG) for taxis. Passage of the long-pending Renewable Energy bill would encourage investments to develop the country's 2,500 MW of potential wind, hydro, geothermal, and biomass power by 2025. A one-stop-shop renewable information

and market service hub provided by the government would promote and facilitate investment. On biofuels, the country is already on track in the implementation of its 2007 Biofuels Law, which mandates a minimum 2% biodiesel and 10% bioethanol fuel blends by 2009 and 2011, respectively. Meanwhile, government CNG plans for buses in Metro Manila had stagnated over the past three years due to a combination of bureaucratic, investment and technical constraints.

¶10. Energy Efficiency and Conservation. Summit participants acknowledged that despite successful efforts in efficiency and conservation, a much greater effort was needed to tap the full potential of such measures. An institutionalized and comprehensive energy efficiency program was proposed that would include: (a) a major retrofit program for commercial, industrial and residential sectors; (b) public transport leasing; (c) expansion of mass transport systems; (d) promotion of non-motorized technologies; (e) rationalized operation of tricycles (a major transport sub-sector in the country); and (f) an aviation efficiency enhancement program.

¶11. Social Mobilization. Last but not least, in acknowledgement of the critical role of civil society groups in shaping the opinion of this diverse and decentralized nation, the Summit recommended a set of cross-sectoral actions and suggested more formal means of including stakeholder input in planning and implementing sector reforms. For example, transport and consumer groups have come up with energy efficiency and conservation measures on their own, but requested the Philippine government to provide policy support and to become more transparent and consultative in their own planning processes.

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¶12. Yellow and Red Initiatives. Two of the proposals which needed further research or the "yellow initiatives" were: (a) the viability of jatropha as a biodiesel feedstock and (b) the need to develop a new energy conservation law. The old Energy Conservation Law was effective only between 1980 to 1985 to address the impacts of oil crisis. There were also more contentious proposals or "red initiatives" to, for example abolish the collection of income tax and instead raise the tax for products that produce carbon emissions, a "carbon tax". The reason behind this proposal was to penalize the polluters and discourage the use of fuels that are known to emit higher level of carbon dioxide such as diesel or coal.

¶13. Oil Prices. Summit speakers agreed that oil prices may still go beyond \$100, and that the country has little or no influence over global prices. Several proposals aimed to mitigate the impacts of rising oil prices, especially on the poor. These included abolishment of the Value Added Tax on oil products, or using the tax proceeds from oil products to fund pro-poor activities. Meanwhile, there was consensus to strive towards greater energy independence by reducing reliance on imported oil and use this opportunity to increase the diversity of the Philippines' energy mix share of domestic, climate-friendly energy sources. Currently, more than 50% of the country's energy mix is provided through non-domestic sources. The situation is even more skewed in the heavily oil-dependent transport sector, where more than 60% of fuel is imported.

THE PRESIDENT'S RESPONSE

¶14. At the Pumps. In the days leading up to the Summit, President Arroyo issued an Executive Order to temporarily reduce oil tariffs, resulting in a one peso reduction (2.7%) in diesel prices at the pump. At the Summit itself, she made a strong appeal to oil vendors to roll back prices by an additional 50 centavos. Ironically, the President called for the Summit when oil prices exceeded \$100 per barrel in early January. However, on the day of her February 5th address, the price was a more "modest" \$88 per barrel and is projected to decrease to \$70 by June.

¶15. At the Summit. In her address, President Arroyo supported most

of the Summit proposals, emphasizing support for: (a) mitigating the effects of high energy costs on the poor; (b) proceeding with government plans to privatize remaining National Power Corporation's generating assets and accelerating implementation of open access ("why not today?"); and (c) phasing out incandescent lights by 2010 as part of the government's energy conservation plan.

¶16. Climate Change. President Arroyo underlined the high stakes for this archipelagic nation when it comes to climate change, enjoining those present to act towards a solution: "As a nation made up of over 7,000 islands, rising seas due to global warming takes on a whole new meaning. Florida may lose some coastline, we lose a nation. Our response to this grave challenge may [s]ound humorous, but our intent is deadly serious: we must work together to solve this problem."

USG PARTICIPATION

¶17. The USG contributed to the success of the Summit in several ways. Staff from the Embassy Economics Section, Foreign Commercial Service, and USAID each actively participated in all phases of the Summit. Staff of USAID energy projects were also involved in Summit planning and served as experts in various panels. USAID also continues to provide assistance to the Department of Energy to develop its Philippine Energy Plan.

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COMMENT

¶18. Given the short period of time the Department of Energy had to plan the Summit, it was a remarkable success at several levels. First, the depth and breadth of participation - with most participants attending multiple days, demonstrates both stakeholder interest and the value of getting together and sharing knowledge and opinions on this vital sector. As noted by Secretary Reyes, the process was as important as the product, and the public appeared highly appreciative of government efforts to hold the Summit. Second, the Summit produced a useful set of initiatives and proposals, supported by varying degrees of consensus, for further action. While there were no major surprises among these proposals, the broad endorsement provides a useful action plan for the various stakeholder groups. Finally, while the broad set of proposals ultimately overshadowed the original "\$100 per barrel" impetus for the Summit, government did accumulate some political capital in "looking out for the little guy" by successfully bringing down prices at the gas pump. The U.S. mission is closely monitoring, and to some extent, plays an active role in pursuing such action plans.

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